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June 16, 1999

Written EX PARTE

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JUN 16 1999

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
445 12<sup>th</sup> St. S.W.  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: Written Ex Parte in CC Docket No. 98-81

Dear Ms. Salas:

This is to give notice that today I have sent the attached written ex parte to staff in the Common Carrier Bureau. The ex parte, which presents information related to BellSouth's use of generally accepted accounting principles to set intrastate depreciation rates in each of the nine states in which BellSouth Telecommunications operates, is submitted in response to a request from Dr. Robert Loube of the Bureau's Accounting Policy Division.

As required by Section 1.1206(b) (1) of the Commission's rules, I am filing two copies of this notice for inclusion in the docket identified above and ask that you associate this notification and the attachment with that proceeding's record.

Sincerely,



Kathleen B. Levitz  
Vice President-Federal Regulatory

cc: Robert Loube (w/o attachments)  
Ken Moran (w/o attachments)  
Patrick DeGraba (w/o attachments)

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**Kathleen B. Levitz**  
Vice President-Federal Regulatory

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Dr. Robert Loube  
Accounting Policy Division  
Common Carrier Bureau  
Federal Communications Commission  
Room 5-B524  
445 12<sup>th</sup> St., S.W.  
Washington, D.C. 20554

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**JUN 16 1999**

**Federal Communications Commission  
Office of Secretary**

Written Ex Parte in CC Docket No. 98-81

Dear Dr. Loube:

Attached is information that I hope is responsive to the questions for which you were seeking answers when you called me on June 14, 1999. If after reviewing the attachment you find that you need additional information, please call me at 202.463.4113.

In compliance with Section 1.1206(b)(1) of the Commission's rules, I am filing two copies of this written ex parte presentation with the Secretary of the Commission and requesting that it be associated with the record of CC Docket No. 98-81.

Sincerely,



Kathleen B. Levitz  
Vice President – Federal Regulatory

Attachment

cc: Kenneth Moran  
Patrick DeGraba

## **BellSouth Responses to Depreciation Questions**

As part of the State Price Regulation Plans in all its states, BellSouth is allowed to record intrastate depreciation expense based on depreciation rates that it develops. These depreciation rates are based on economic (or GAAP) lives that BellSouth's analysis shows to be appropriate. Attached are the economic lives and future net salvage percentages that underlie the depreciation rates for the various accounts used to record BellSouth's 1999 intrastate depreciation expense. (For certain limited purposes, such as determining costs related to universal service and unbundled network elements, the state commissions generally still maintain authority over the depreciation parameters. Also, as information, a recent Supreme Court decision in South Carolina has brought into question that state's Price Regulation Plan as it existed in 1996, 1997 and 1998.)

Regulatory accounting books were not adjusted to match financial books when Price Regulation was implemented. The remaining life depreciation method that BellSouth uses brings the regulatory books and the financial books to the same depreciation position over time. Attached is an evaluation of the impact of implementing BellSouth's own intrastate depreciation rates in North Carolina. This evaluation was submitted to the North Carolina Commission during the Price Regulation hearings there.

# BellSouth

## 1999 PSC Depreciation Parameters

Account <u>Name</u>	Account <u>Number</u>	Economic <u>Life</u>	Future Net <u>Salvage</u>
MVEH	2112.00	8.0	16
SVEH	2114.00	7.0	0
GWEQ	2115.00	12.0	0
OWEQ	2116.00	15.0	0
BALL	2121.00	45.0	0
FURN	2122.00	15.0	10
OSEQ	2123.10	11.5	5
OCOM	2123.20	7.0	10
COMP	2124.00	5.0	2
AESS	2211.00	2.7	0
DESS	2212.00	10.0	0
OPRS	2220.00	10.0	0
RADS	2231.00	9.0	-5
CDDS	2232.11	8.0	2
CKTD	2232.12	9.0	0
CKTA	2232.20	7.5	-3
STAA	2311.00	6.0	0
LPBX	2341.00	6.0	0
OTEQ	2362.00	6.0	5
POLE	2411.00	36.0	-55
AERM	2421.10	14.0	-14
AERF	2421.20	20.0	-14
UGRM	2422.10	12.0	-8
UGRF	2422.20	20.0	-8
BURM	2423.10	14.0	-7
BURF	2423.20	20.0	-7
SUBC	2424.00	14.0	-5
INTB	2426.00	20.0	-10
CNDT	2441.00	55.0	-10

**BELLSOUTH TELECOMMUNICATIONS, INC.**  
**Calculation of Depreciation Rate Changes**  
**For the Twelve Months Ended September 30, 1995**  
**North Carolina Operations**

Line No.	Item	Intrastate Adjustment To Test Period
1	Total Intrastate Depreciation Expense Increase	62,843,000
2	Regulated Factor	0.9902
3	Total Expense Effect (regulated)	62,228,000
4	Net Income Conversion Factor	0.5996
5	Net Income Effect	(37,311,909)
	Rate Base effect	
6	Accumulated Depreciation Reserve	62,228,000
7	Avg. Rate Base Effect (L6/2)	(31,114,000)

**Depreciation Rate Changes - Adjustment 5**

House Bill 161 grants the incumbent LEC the ability to set its own depreciation rates once it enters price regulation. Historically, the regulatory environment has understated the Company's depreciation expense by projecting asset lives that were too long. In an environment of escalating competition and technological improvements, the problem becomes critical. Accordingly, the Company will shorten the lives of six major technology accounts that are subject to more rapid obsolescence. This adjustment reflects the additional depreciation expense we will book under these new lives. Page 8 of 11 reflects additional detail on these changes.

**Adjustment to Rate Base - Adjustment 12**

This adjustment reduces rate base for the effect of the depreciation rate changes in adjustment number 5.

COMPANY: BELLSOUTH TELECOMMUNICATIONS  
STATE: NORTH CAROLINA  
STATEMENT A - REMAINING LIFE

SUMMARY OF CHANGES IN DEPRECIATION RATES

ACCOUNT NUMBER	CLASS OF PLANT	RATES IN EFFECT				RATES EFFECTIVE 1998			
		(A) RL LIFE YEARS	(B) RESV. %	(C) NET SALV. %	(D) DEPR RATE	(E) RL LIFE YEARS	(F) RESV. %	(G) NET SALV. %	(H) DEPR RATE
2212.00	DIGITAL ESS	13.7	18.8	1.0	8.0	8.2	32.4	0.0	10.0
2232.12	CIRCUIT DIGITAL	7.0	35.7	0.0	9.2	6.2	42.0	-3.0	9.8
2232.20	CIRCUIT ANALOG	7.0	35.7	0.0	9.2	1.4	75.7	-10.0	24.5
2421.10	AERIAL CABLE METALLIC	11.0	40.7	-13.0	6.1	7.0	51.4	-13.0	7.8
2422.10	UNDG. CABLE METALLIC	8.5	64.8	-12.0	5.8	5.5	69.0	-12.0	7.8
2423.10	BURIED CABLE METALLIC	12.0	37.3	-7.0	5.4	8.2	42.4	-7.0	7.9

COMPANY: BELLSOUTH TELECOMMUNICATIONS  
STATE: NORTH CAROLINA  
STATEMENT B - REMAINING LIFE

CHANGE IN ANNUAL DEPRECIATION EXPENSE  
RESULTING FROM CHANGES IN DEPRECIATION RATES  
SEPARATED ON AN INTRASTATE BASIS

ACCOUNT NUMBER	CLASS OF PLANT	(I) INTRA. FACTOR	INVESTMENT 1-1-98		RATES IN EFFECT		NEW RATES		CHG. (P) INTRA. (O-M)
			(J) COMBINED	(K) INTRA. (I*J)	(L) COMB. (D*J)	(M) INTRA. (D*K)	(N) COMB. (H*J)	(O) INTRA. (H*K)	
2212.00	DIGITAL ESS	0.840	678,122	568,822	40,687	34,177	73,915	62,089	27,911
2232.12	CIRCUIT DIGITAL	0.888	680,308	448,111	59,829	41,042	63,730	43,719	2,677
2232.20	CIRCUIT ANALOG	0.688	69,181	47,448	6,383	4,386	16,845	11,534	7,259
2421.10	AERIAL CABLE METALLIC	0.740	389,949	286,962	24,367	18,064	31,198	23,086	5,031
2422.10	UNDG. CABLE METALLIC	0.740	190,034	140,825	10,842	7,875	14,823	10,889	3,094
2423.10	BURIED CABLE METALLIC	0.740	911,821	674,821	49,244	36,440	72,042	53,311	16,871
TOTAL			2,869,485	2,174,586	181,182	141,853	272,651	204,697	62,843